

Message Text

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TAGS: ETRD, EFIN, GATT

SUBJECT: GATT COUNCIL - ISRAELI REQUEST TO RAISE SPECIFIC
DUTIES

REFERENCES: (A) GENEVA 3281; (B) GENEVA 3071; (C) STATE
49203

1. WASHINGTON AGREES WITH GENEVA (REF B) THAT A MEANS
SHOULD BE SOUGHT TO CONFIRM APPLICABILITY OF ARTICLE II:6(A)
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UNDER A FLEXIBLE EXCHANGE RATE SYSTEM. WE ALSO SHARE YOUR
CONCERN ABOUT PRECEDENTS WE MAY BE SETTING. WE THEREFORE
WOULD PREFER THAT NO FINAL DECISION BE REACHED AT MARCH 14
COUNCIL SESSION, BUT THAT ISSUE BE DISCUSSED AND REFERRED
TO A WORKING PARTY TO WORK OUT RECOMMENDATIONS FOR THE
NEXT COUNCIL MEETING.

2. THIS WILL NOT BE FIRST TIME ARTICLE II:6(A) HAS BEEN SUBJECT TO INTERPRETATION. IN 1961 URUGUAY REQUESTED AUTHORITY TO INCREASE AFOROS (OFFICIALY-FIXED VALUATION ON WHICH A SPECIFIC OR AD VALOREM DUTY IS ASSESSED) SET FORTH IN SCHEDULE XXXI TO REFLECT AN 83 PERCENT DEVALUATION OF THE PESO. URUGUAY ARGUED THAT THIS PROPOSAL WAS COVERED BY ARTICLE II:6(A). GATT WORKING PARTY LIMITED ITS INQUIRY TO QUESTION OF WHETHER THE PROPOSED INCREASES WOULD IMPAIR THE VALUE OF GATT CONCESSIONS, "BEARING IN MIND THE CHANGES IN THE VALUE OF THE CURRENCY". THE INCREASES WERE AUTHORIZED. (BISD TENTH SUPPLEMENT PAGES 34 AND 199. SEE ALSO THIRTEENTH SUPPLEMENT PAGE 20.) ALTHOUGH THIS IS NOT A DIRECT PRECEDENT IN THE PRESENT INSTANCE BECAUSE URUGUAY'S EXCHANGE RATE WAS FIXED, IT NEVERTHELESS ILLUSTRATES HOW THE CONTRACTING PARTIES DEALT WITH A REQUEST NOT DIRECTLY COVERED BY ARTICLE II:6(A) AND SO SUGGESTS SOME APPROACHES TO THE ISRAELI PROBLEM.

3. QUESTIONS INVOLVED IN THE PRESENT CASE INCLUDE THOSE SET FORTH IN REFTELS, SUCH AS APPROPRIATE MEASURE OF DEVALUATION, APPROPRIATENESS OF TARIFF ADJUSTMENTS UNDER A FLOATING EXCHANGE RATE REGIME, AND EXTENT OF PERMISSIBLE ADJUSTMENT. ALSO, IS REDUCTION OF SPECIFIC DUTIES APPROPRIATE WHEN A CURRENCY APPRECIATES (SWITZERLAND)? FURTHER, HOW OFTEN AND UNDER WHAT TERMS MIGHT THESE ADJUSTMENTS BE MADE? BEGIN FYI. THE QUESTION OF HOW TO MEASURE THE LIMITED OFFICIAL USE

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ISRAELI POUND'S DEVALUATION IS TICKLISH. THERE IS SOME SUPPORT IN WASHINGTON FOR USING THE SDR FOR THIS PURPOSE SINCE IT IS AN AGREED EXISTING UNIT WHICH COULD NOT BE MANIPULATED TO SUIT AN INDIVIDUAL COUNTRY'S PURPOSES. ON THE OTHER HAND, THE USE OF THE SDR (OR PROBABLY A TRADE-WEIGHTED BASKET OF CURRENCIES) WOULD INCREASE THE CALCULATED DEVALUATION, AND HENCE THE PERMISSIBLE LEVEL OF DUTY INCREASES BECAUSE OF THE DOLLAR'S RECENT DECLINE. END FYI.

4. AS MISSION INDICATES IN REFTEL (B), IMF IS MOST RELUCTANT TO ISSUE OPINIONS ON MANY OF THE QUESTIONS RAISED HERE, PARTICULARLY THE APPROPRIATENESS OF ISRAEL'S EXCHANGE REGIME. THE MOST IMF WOULD BE LIKELY TO SAY IN A STATEMENT TO GATT WOULD BE WHETHER ISRAELI EXCHANGE ARRANGEMENTS ARE BEING MAINTAINED CONSISTENTLY WITH THE ARTICLES OF AGREEMENT. NOR WOULD FUND'S DEPUTY GENERAL COUNSEL (PROTECT) AGREE THAT MEASUREMENT OF ISRAELI POUND'S DEVALUATION AGAINST THE DOLLAR IS NECESSARILY INAPPROPRIATE, OBSERVING ONLY THAT THERE MIGHT BE BETTER MEASUREMENTS AVAILABLE (SUCH AS WITH RESPECT TO A TRADE-WEIGHTED BASKET).

5. THE FUND HAS HAD SEVERAL RECENT EXCHANGES WITH THE GATT SECRETARIAT OVER QUESTION OF WHAT CONSTITUTES AN APPROPRIATE TARIFF ADJUSTMENT IN LIGHT OF A PARTICULAR SHIFT IN EXCHANGE RATES. NO CONCLUSIONS WERE REACHED. AS A RESULT, THE IMF WOULD LEAVE IT TO GATT TO DECIDE ON A FORMULA FOR CONVERSION OF SPECIFIC TARIFFS IN LIGHT OF NEW EXCHANGE RATES. IMF REPRESENTATIVE COULD, OF COURSE, BE AVAILABLE TO CONSULT ON THE "NUMBERS" INVOLVED, BUT PROBABLY WOULD DUCK IF ASKED TO INDICATE AN EQUIVALENT TO THE "PAR VALUE" STANDARD CONTAINED IN ARTICLE II:6(A).

6. MISSION THEREFORE SHOULD RESPOND TO ISRAELIS AND TO SECRETARIAT ALONG FOLLOWING LINES:

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A. WE AGREE WITH THE PRINCIPLE THAT ARTICLE II:6(A) SHOULD APPLY UNDER A SYSTEM OF FLEXIBLE EXCHANGE RATES, AND COULD SUPPORT "INTENT" LANGUAGE AS SUGGESTED IN REFTEL (A).

B. THIS PROBLEM IS SUFFICIENTLY COMPLICATED AND IMPORTANT, HOWEVER, THAT WE DO NOT BELIEVE IT POSSIBLE TO WORK OUT A PROPER SOLUTION BEFORE THE MARCH 14 COUNCIL MEETING. WE SUGGEST, THEREFORE, THAT THE COUNCIL ESTABLISH A WORKING PARTY TO REVIEW THE ISRAELI REQUEST WITH THE IMF'S PARTICIPATION AND RECOMMEND A SOLUTION TO THE NEXT COUNCIL MEETING.

C. THE WORKING PARTY'S RECOMMENDATION SHOULD BE CAREFULLY (AND RATHER NARROWLY) FRAMED IN TERMS OF THE IMMEDIATE ISSUE IN ORDER TO RESTRICT ITS VALUE AS A PRECEDENT TO SIMILAR CASES.

D. WE WOULD APPRECIATE AN EXPLANATION OF HOW THE ISRAELIS DETERMINED THE "REPRESENTATIVE RATE" MENTIONED IN THEIR STATEMENT (REFTEL (A)). WHAT IS THEIR CALCULATION OF THE EXTENT OF DEVALUATION? (BEGIN FYI. WE CALCULATE 62 PERCENT. END FYI.) VANCE

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